Commitment 5: Reform City Salaries and Labor Contracts

City labor contracts should be reformed and net compensation for city employees should be benchmarked to the local labor market.

Over the years, salaries and benefits awarded to City employees have been steadily increased –even during times of fiscal crisis for the City.

Among the problems with the current system of city labor contracts:

- Salary increases are not based on merit, but collective bargaining and longevity.
- City labor contracts now have a byzantine structure of requirements that limit the discretion of city manage ment to hold workers accountable for results.
- Overly-generous vacation policies are enabling city employees to bank significant leave balances – and receive annual cash payouts for accumulated leave
- Base salaries do not tell full story of city employee compensation – with a complicated and opaque set of "specialty" pays added on to base salaries for city employees in each union

As San Diego taxpayers have seen pay freezes, pay cuts, and job losses, city employees have actually fared quite well by comparison. Our indicator of this fact is the growth of the number of city employees earning over $100,000 in city government over the past decade – and in particular since the economy has soured.

March 2010 Compensation Report: Number Employees Earning Over $100,000 is 44% Higher Than 2 Years Ago

CY	FY	Citywide Annually Budgeted FTEs[1]	Number of 100K Members[2]	Annual % Change	100K Members as % of Budgeted FTEs
2003	2004	11,269	483	N/A	4.29%
2004	2005	11,071	644	33.33%	5.82%
2005	2006	10,834	753	16.93%	6.95%
2006	2007	11,391	770	2.26%	6.76%
2007	2008	10,787	874	13.51%	8.10%
2008	2009	10,729	1,255	43.59%	11.70%
2009	2010	10,572	1,265	0.80%	11.97%

[1] FY 2004 figures taken from FY 2005 Annual Budget
FY 2005 – FY 2007 figures taken from FY 2007 Annual Budget
FY 2008 – FY 2009 figures taken from FY 20009 Annual Budget
FY 2010 figures taken from FY 2010 Annual Budget
[2] City of San Diego

The city's labor costs must be reformed – to bring total compensation packages for city employees down to levels commensurate with San Diego's local labor market. Put simply, city employees should receive no more, and no less in compensation for the same kind of work done in the private sector or non-profit sector locally.

FY 2012 Changes

Reform 5.1: Implement a 2% General Salary Reduction (Non-Public Safety) – and Freeze Base Salaries for Five Years

Many government agencies have implemented furlough programs. In the past, some city labor unions have proposed expanded furloughs in lieu of salary reductions. It should be noted that furloughs might result in impact to service levels depending on how they are implemented. Worse, as is the case with the MEA furlough program, furloughs allow for special assignment pays to be calculated based on a full base rate before subtracting pay for the mandatory furlough, and also does not reduce the amount of SDCERS pensionable compensation.[3]

To achieve balance in FY 2012 without expanding furloughs, the Roadmap to Reform includes general salary reductions of 2% for MEA, DCAA and all Unclassified/Unrepresented employees from the status quo, or baseline. This is estimated to produce General Fund savings of $3.9 million for MEA and DCAA, plus any savings from a 2% salary reduction to unrepresented employees.

The five-year freeze in salaries is consistent with the Mayor's proposed financial forecast. More importantly, as outlined in Commitment 4 on Pension Reform, a five-year base salary freeze is absolutely essential to reducing long-term pension costs in city government - by freezing "pensionable pay" for city employees.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	MEA and DCAA 2% Base Salary Reductions	NA	$3.25 Million*
City-Wide	Unclassifieds 2% Base Salary Reduction	NA	TBD*

NOTE: We recommend that any reduction taken here should be taken as the city's starting position in labor negotiations with Police and Local 127 in FY 13.

Reform 5.2: Reform "Special Pays" Throughout the City's Budget

In addition to base compensation (salaries and wages), the City of San Diego includes additional compensation components in the FY 2011 General Fund budget, many of which are considered "special pays."

Over the years, the labor unions have used "special pays" to spike take-home earnings of city employees - and increase "pensionable pay". The result has been a costly system that lacks true transparency on city employee compensation levels. Worse, the myriad of special pays has resulted in numerous accounting headaches – particularly in the transition to the new ERP system.

In this section, the Roadmap tackles the elimination of some "special pays" to achieve FY 2012 budget savings and explores changing the methodology under which they are calculated.

As a general principle, our office does not agree with the use of special pays as a salary increase for all affected employees because it reduces transparency and potentially creates a false notion of a "pay freeze," when in fact increases in special pays may be occurring. Furthermore, we also believe that special pays cease to be "special" when they are provided to essentially all employees covered under a labor contract.

Instead, we believe that "special pays" should be reserved for activities that go well beyond basic job requirements (e.g. "bomb squad" pay).

Currently, many special pays are calculated as a percentage of base pay, as opposed to a flat dollar amount. This has the impact of triggering an increase in the cost of special pays to the City whenever a general salary increase is enacted. The City can guard itself against these cost increases in the future by negotiating a change in the current calculation methodology for some special pays to a flat dollar amount.

* We must note that data segregated into bargaining unit and General Fund was not available to our office. As a result, we can only estimate the financial impact of these reductions based on very limted information. We attempted to obtain the data from the Office of the Independent Budget Analysis, but the city's financial system could not correctly provide the necessary information.

[3] "Frequently Asked Questions and Answer Re: Mandatory Furlough and the SPSP Waiver vs. Pay Deduction Option."

While eliminating these pays may in some cases be warranted, there may be other cases where the City finds it prudent to provide special pay.

The table below provides a summary of the various reform options the City can pursue regarding the various specialty pays currently provided under labor contracts.

Descriptive Item	Option 1	Option 2	Option 3
	Reduce Special Pay	Change Methodology	Change Pensionable Status
Meet and Confer?	Yes	Yes	Yes
Legal Authority?	Yes	Yes	Potentially; Case by Case
Hard Budget Savings	Yes	Potentially - Depends on Pay Amount	No
Pension Actuarial Savings	Yes, if particular pay is pensionable	Potentially - Depends on Pay Amount	Yes

Suspend EMT 8.5% Special Pay: ($4.83 million)

Our office has previously opined on the cost savings available from eliminating a specialty pay provided to essentially all firefighters for holding an EMT certificate -- even though an EMT certificate is a basic requirement of the job. Particularly when the City finds itself in serious financial difficulties and has browned-out fire stations, we do not believe that providing a special pay of 8.5% of base salary for a basic requirement of all applicants for a position with the Fire Department is warranted.

As the IBA has noted, 86% of calls responded to by the Fire Department are medical in nature[4]. This data suggests that medical response is overwhelmingly the primary function of City firefighters, which justifies a continuation of the practice of requiring an EMT certificate as a basic job qualification.

It is our understanding that eliminating the EMT specialty pay will reduce pensionable payroll, as this special pay is considered "base earnings" in the addendum submitted to SDCERS each year along with the Salary Ordinance. Therefore, we expect actuarial savings to result, providing pension experience gains.

Eliminate Fire Administrative Assignment Pay: ($719,348)

The City currently provides a 15% special pay for administrative assignment, or "desk pay" under its current labor contract with the Fire Department. We propose eliminating this special pay to achieve a savings of $719,348.

As in the case of EMT special pay, Administrative Assignment pay is also considered "pensionable." Eliminating this pay is expected to result in actuarial gains beyond the immediate budget impact.

Master Degree Library Pay: ($262,397)

We recommend elimination of the 5% Master Degree Library pay in upcoming labor negotiations with MEA due to the City's financial condition and criteria we have previously stated for special pays.

Additional MEA Specialty Pays

In addition to the Master Degree Library Pay, the MEA labor contract lists a number of additional pays and reimbursement rates that should be reviewed and trimmed. The Roadmap establishes a hard target for reduction of $1.5 million from the MEA contract through special pay reform.

[4] See IBA Report 10-76.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Fire Department	Eliminate 8.5% Specialty Pay for EMT Certifications – these are already basic requirements for hiring in the department	NA	$5,000,000
Fire Department	Eliminate 15% "desk pay" premium for administrative duties	NA	$719,348
Library Department	Eliminate Masters Degree Specialty Pay for Librarians	NA	$262,397
City-Wide	Reduce 50% of Special Pays Remaining in MEA Contract	NA	$1,500,000

Reform 5.3 End Terminal Leave

The City Council has voted once to eliminate Terminal Leave, which allowed employees separating from City employment to accrue service time, benefits and additional leave with any unused leave they had accrued prior to separation. The annual savings of this reform have been estimated with a range of $120,000 - $1.2 million, although the City Council must vote once more to codify the elimination of this benefit. This reform will also generate long-term taxpayer savings by preventing city employees from using Terminal Leave to increasing their pensions by padding their years of service.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Terminal Leave Savings	NA	$120,000

Reform 5.4 Reform Management Leave and Management Vehicle Allowances

Given the gravity of the city's financial challenges, the City should immediately suspend management leave and all management vehicle allowances.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Floor on savings from eliminating Management Leave and Management Vehicle Allowance	NA	$50,000

Reform 5.5 Reform Holiday and Leave Policies

City employees are provided with extremely generous holiday and personal leave benefits – which cost taxpayers when overtime is incurred and when this leave time is cashed out by employees.

Maximum Accumulation of Leave:
On a go forward basis, city employees should not be allowed to accumulate more than 240 hours of leave time. General city employees should receive no more than 120 hours of leave time per year.

Reform and Cap on "Pay In Lieu" Amounts:
Some city labor contracts allow employees to receive "pay in lieu of leave" amounts each fiscal year. In FY 10, according to preliminary close out reports, more than $6.1 million in General Fund payouts occurred due to this policy. (Note: As the Comptroller's Office reconciles and completes its close out under the ERP system, these numbers will be finalized.)

For all labor contracts the City should mandate that any future leave time accrued can only be paid out upon termination of employment. If the City Attorney determines that this policy change can immediately be applied to current leave time accrued, then that reform should be explored, taking into account potential management impacts.

Reduction in City-Wide "Floating" Holiday:
Given the generous leave policies up to this point have allowed many city employees to accrue significant leave balances, the "floating holiday" policy should be suspended for all labor unions, starting with contracts up in FY 12 and completing this reform in FY 13.

Review Leave Policies in Fire Union Contract
The City should examine the appropriateness of reducing holiday and personal leave allowances for fire fighters given the unique work schedule they have.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	Reform "Pay in Lieu" Amounts and Accrual of Leave Time	NA	TBD

Long-Term Changes

Reform 5.6 Cross-Cut Reform: Provide for "Share-in-Savings" Bonuses for City Employees in FY 15 and 16

As outlined in the preceding section on reducing and freezing "pensionable pay" to achieve reform, we propose that city employees be eligible for compensation increases in the last two years of the five year financial recovery plan period – provided that savings from reduced pension payments are achieved through the enactment of reforms.

Policies on how those savings will be distributed to employees will be a subject of "meet and confer" with a not-to-exceed cap on payouts determined by savings attributed to the reforms.

It is anticipated that savings generated through pension reform will allow employees during the last two years of this financial recovery process to "catch up" on compensation increases.

Reform 5.7 Reform How Step Increases Are Provided

Under Personal Regulations of the civil service system at the City of San Diego, nearly 2,000 salary increases are granted each year, as "merit," or "step" increases. Some of these increases are triggered by service time rendered by a City employee at a particular position.

For example, Personnel Regulations outline that "[e]xcept as otherwise provided in current Management policies or current ratified memoranda of understanding, full-time salaried employees are considered for normal one-step increases upon completion of" various amounts of service time[5].

Summary statistics regarding these salary increases for the past two fiscal years and through October 5th of FY 2011 are provided in the table below.

Step/"Merit" Increases - FY 2009 - FY 2011[6]

	FY 2009	FY 2010	FY 2011 (through Oct. 5, 2010)
# of Increases	1,992	2,038	644
Avg. % Salary Increase	5.9%	5.71%	5.69%
Annualized Aggregate Salary Increase[7]	$5.6 million	$5.4 million	$1.7 million

6 Personnel Regulations, Personnel Manual. Index Code H-8, pg. 2.
6 City of San Diego Personnel Department
7 We assume that all hourly raises are attributable to 40-hour work weeks for simplicity. These annualized figures would be overstated in the event any employees worked part-time.

As the table on the left shows, the longevity-based "merit" or "step" increases have cost the City approximately $5.5 million annually (citywide) over the past two fiscal years[8]. This is important to note because while the City has not provided general salary increases in its recent labor contracts, payroll has still increased due to these merit increases.

In upcoming labor negotiations, the City could propose to suspend these step increases in an effort to obtain a true, or "hard" pay freeze.

However, the City's ability to impose a step increase suspension in the event that its labor unions do not agree to such terms is more legally complex because of potential issues and requirements of the City Charter.

As a result, we do not score any savings from suspension of step increases into our solutions. However, we do recommend that addressing these automatic pay raises be included as part of the City's long-term strategy for resolving its structural deficit. As a long-term goal, Charter Section 130 should be amended to ensure the City can control its entire payroll, which is an important method the City has to control annual pension costs.

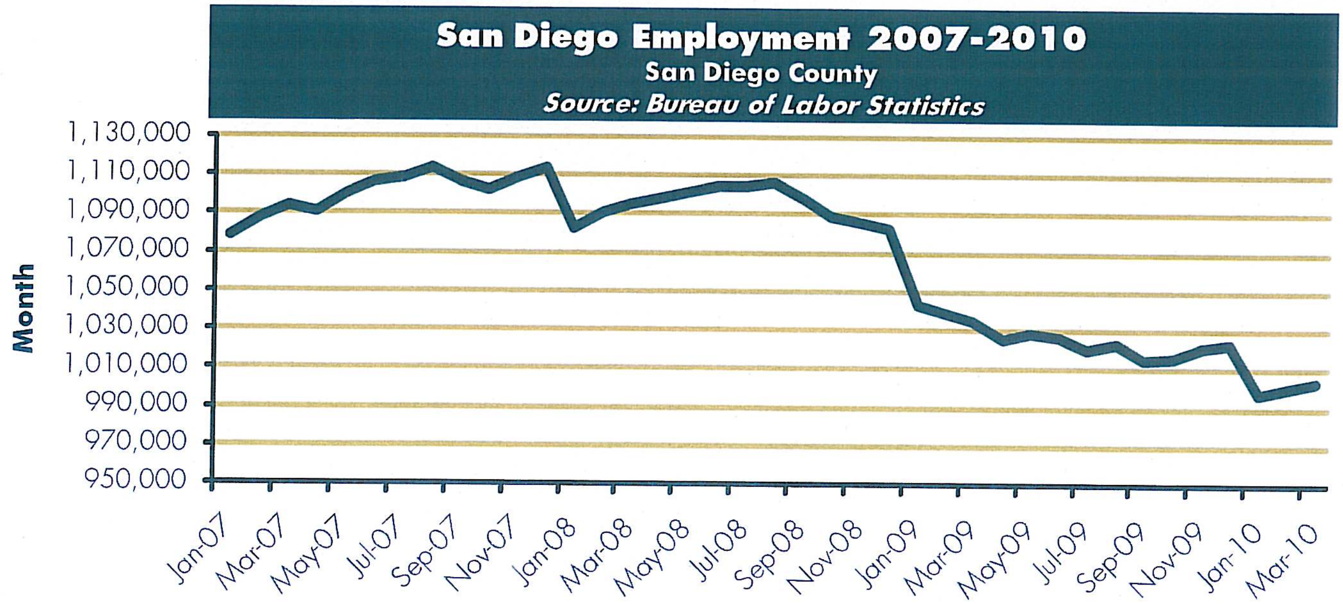
Compensation Reductions Common in Private Sector

As part of our solution to the FY 2012 budget deficit and the solution to the long-term pension crisis, the Roadmap to Recovery proposes to make some reductions in city employee compensation – ranging from a reduction of 5% for some employees to as much as 8.5%.

According the National Bureau of Economic Research, in December 2007 the United States economy entered one of its largest and longest recessions in recent history. The affects of the recession permeated nearly every industry and region in the country, including San Diego.

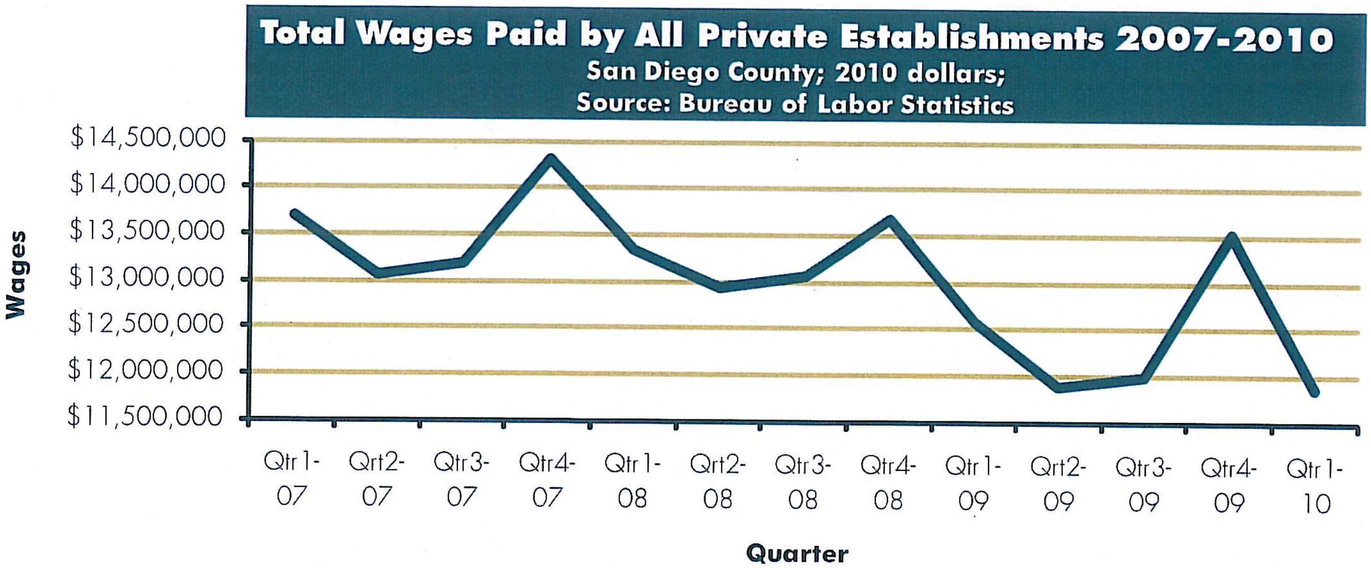
Since 2007, San Diego County has experienced business closures, rising unemployment, and falling wages. The following presents a snapshot of how this recent recession has impacted San Diego's private economy.

Reductions in Employment[9]
Between March 2007 and March 2010, private employment in the San Diego County shrank from 1,095,301 to 1,004,005, a reduction of 91,296 jobs (8.34% of all private jobs in the County). A large portion of these job losses came during the period corresponding to the City's FY 2009 (July 2008 – June 2009). During this period private employment in San Diego County shrank by 77,764 jobs (7.04% of all private jobs). In January 2010, employment in San Diego County totaled only 997,279, the lowest total during any month since January 2001, despite a 4.58%[10] increase in the County's population over this period.



[8] The data provided to our office includes hourly and salary employees. We have annualized all hourly increases into 52, 40-hour workweeks. In the event any of these employees are working less than full time, our annualized savings will be overstated.
[9] Figures derived from BLS Data Series: All Industry Private Employment in San Diego County.
[10] This increase does not exactly correspond to the dates mentioned, as they are based of U.S. Census point estimates in July not January.

Average Private Sector Wages Decreased by 13.39%[11]
Total wages paid by the private sector decreased by $1.83 million or 13.39% between the first quarter of 2007 and the first quarter of 2010. Wages paid in the first quarter of 2010 were the lowest total wages of any corresponding period during the past decade.[12] While total annual private wages in 2009 were at their lowest since 2003. Average annual private wages per employee were $48,5805 in 2007. By 2009, annual private wages per employee dropped $557 (1.15%) to $48,023.



[11] Figure derived from BLS Data Series: Quarterly Census of Employment and Wages, All Industry, Privately-Owned in San Diego County. All figures are inflation adjusted using BLS CPI for San Diego Metropolitan Area.
[12] When figures are considered in 2010 dollars.
[13] In 2009 dollars.